

Message Text

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FM SECSTATE WASHDC

TO USMISSION EC BRUSSELS PRIORITY

AMEMBASSY DUBLIN PRIORITY

AMEMBASSY COPENHAGEN PRIORITY

AMEMBASSY BRUSSELS PRIORITY

AMEMBASSY LONDON PRIORITY

AMEMBASSY LUXEMBOURG PRIORITY

AMEMBASSY PARIS PRIORITY

AMEMBASSY THE HAGUE PRIORITY

AMEMBASSY ROME PRIORITY

AMEMBASSY BONN PRIORITY

INFO USMISSION OECD PARIS

USMISSION GENEVA

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SUBJECT: SOYBEAN CAP

REF: (A) BONN 6786; (B) STATE 83747; (C) STATE 246673

1. RE PARA 3, REF (A), WE FIND IT HOPEFUL THAT GERMANS, AND PERHAPS OTHER EC COUNTRIES, HAVE MISGIVINGS OVER POTENTIAL COSTS OF SOYBEAN CAP AS PROPOSED BY COMMISSION. INFO CONTAINED IN REF (B) WAS INTENDED TO REINFORCE SUCH MISGIVINGS AND POSTS SHOULD USE ALL APPROPRIATE OPPORTUNITIES TO PRESENT THIS INFO TO POLICY-MAKING EC AND MEMBER GOVERNMENT OFFICIALS AND THEIR ADVISERS.

2. POSTS SHOULD BE PREPARED FOR POSSIBLE REBUTTAL FROM EC SIDE THAT INCREASED SOYBEAN PRODUCTION IN EC WILL MEAN REDUCED CORN PRODUCTION SO THAT INCREASED U.S. CORN EXPORTS TO EC WOULD PROBABLY OFFSET ANY REDUCTION IN SOYBEAN EXPORTS. THIS ARGUMENT IN ERROR ON TWO COUNTS. FIRST, GROWING OF SOYBEANS IN CROP ROTATION WITH CORN (WHICH IS WHERE WE THINK GREATEST POTENTIAL EXISTS IN EC AT THE PROPOSED SOYBEAN/CORN PRICE RATIO OF APPROXIMATELY 2.5 TO ONE) WILL NOT REDUCE CORN ACREAGE BUT RATHER GREEN FORAGE ACREAGE. SECOND, TO LESSER EXTENT THAT SOYBEANS MAY BE GROWN, NOT IN CROP ROTATION, BUT IN DIRECT COMPETITION WITH CORN, BENEFICIAL EFFECT ON U.S. CORN

EXPORTS IS LIKELY TO BE SUBSTANTIALLY LESS THAN SOYBEAN TRADE LOSS SINCE U.S. SUPPLIES ONLY ABOUT 65 PERCENT OF EC CORN IMPORTS COMPARED TO OVER 90 PERCENT OF SOYBEAN IMPORTS. THUS, IT IS HIGHLY PROBABLE THAT U.S.- TRADE LOSS WILL BE IN FAIRLY DIRECT PROPORTION TO EVENTUAL INCREASE IN EC SOYBEAN PRODUCTION.

3. USG UNDERSTANDS THAT CERTAIN EC COUNTRIES MAY CONSIDER IT IN THEIR INTEREST TO LIMIT QUANTITY OF SOYBEANS SUBJECT TO SUBSIDY UNDER INITIAL PHASE OF CAP. HOWEVER, USG HAS MADE CLEAR ITS POSITION ON GATT RIGHTS AND ITS INTENTION TO EXERCISE THOSE RIGHTS IF GATT CONCESSIONS IMPAIRED. WE CONSIDER IT UNLIKELY THAT ANY USEFUL PURPOSE WOULD BE SERVED BY INDICATING USG SUPPORT FOR LIMITATIONS TO BE INCORPORATED INTO SOYBEAN CAP WHICH COULD BE CHANGED AT ANY TIME IN FUTURE. IN INITIAL PHASE, LIMITED OFFICIAL USE

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SOYBEAN PRODUCTION UNDER CAP LIKELY TO BE SMALL UNDER ANY CIRCUMSTANCES. IT IS POTENTIAL EVOLUTION OF EC SOYBEAN PRODUCTION AS WELL AS IMMEDIATE IMPLICATIONS OF FURTHER BREAKDOWN IN GATT DISCIPLINE BY MAJOR TRADING NATIONS ON COMMODITY OF KEY IMPORTANCE IN WORLD AGRICULTURAL TRADE THAT IS OF CONCERN TO USG.

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